

MARKET CONDUCT EXAMINATION REPORT
OF

KANSAS CITY LIFE INSURANCE COMPANY
3520 BROADWAY
KANSAS CITY, MO 64141-6139

AS OF DECEMBER 31, 1999

CONDUCTED BY:
THE OFFICE OF THE
INSURANCE COMMISSIONER
STATE OF WASHINGTON



TABLE OF CONTENTS

Section	Page
Table of Contents	2
Salutation	3
Chief Examiner's Report Certification & Acknowledgements	4
Foreword	5
History, Territory of Operations, Management	7
Replacement Activity	8
Agent Appointments and Licensing	12
Instructions	13
Appendix	14

May 4, 2001

The Honorable Mike Kreidler
Washington State Insurance Commissioner
Insurance Building
P.O. Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners and the Office of the Insurance Commissioner (OIC), a market conduct examination has been completed covering the affairs of:

Kansas City Life Insurance Company, NAIC #65129
3520 Broadway
Kansas City, Missouri

In this report, Kansas City Life may be referred to as "KCL" or "the Company".

This report of examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Alan Hudina, Jeanne Mayer and Leslie Krier, AIE, of the Washington State Office of the Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of Kansas City Life Insurance Company during the course of this market conduct examination, especially Gary Hoffman, Assistant General Counsel.

I certify that the following is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This market conduct examination report is by exception and additional practices, procedures, and files subject to review during the examination were omitted from the report if no improprieties were indicated. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

Scope

Time Frame

The examination covered the company's operations from January 1, 1997 through December 31, 1999. This was the first examination of Kansas City Life by the Washington Insurance Commissioner's Office and was performed as a desk audit at the OIC's office in Seattle, Washington.

Matters Examined

The examination included a review of the following areas:

Replacement Activity
Agent Licensing and Appointments

Sampling Standards

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

92 %	Confidence Level
+/- 5 %	Mathematical Tolerance.

These are the guidelines prescribed by the National Association of Insurance Commissioners in the Market Conduct Examiners Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the OIC. The tests applied to sampled data will result in an error ratio, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as "met." The standard in the area of agent licensing and appointment will not be met if any violation is identified. The standard in the area of filed rates and forms will not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards, which look for the existence of written procedures, or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

HISTORY, TERRITORY OF OPERATIONS, MANAGEMENT

Kansas City Life Insurance Company (KCL) was admitted to the State of Washington on September 21, 1907. During 1997, Kansas City Life changed its structure following the recent passage of California mutual holding company legislation. KCL is part of the Kansas City Life Group. Other life insurance carriers are Old American Insurance Company and Sunset Life Insurance Company of America. The affiliated companies were not subject to this examination.

The Company is licensed in all states except New York and Vermont, and is also licensed in Washington, DC.

KCL is licensed for life and disability insurance in Washington and has authority to sell Life, Disability, Variable Life, and Variable Annuities. The Company had 287 active agents in the State of Washington as of 2/1/2001.

A Board of Directors governs the Company. The current Board members are:

Joseph R. Bixby
Walter E. Bixby
Jack D. Hayes
C. John Malacarne
Nancy Bixby Hudson
Michael J. Ross
Larry Winn, Jr

R. Philip Bixby
Richard L. Finn
Daryl D. Jensen
Webb R. Gilmore
Warren J. Hunzinger, MD
Elizabeth T. Solberg

The Company's administrative records are located at KCL's Home Office in Kansas City, Missouri. Policy record files are stored by the company and retained for the life of the policy plus seven years following termination of the policy.

REPLACEMENT ACTIVITY

The Office of the Insurance Commissioner is charged with the responsibility and enforcement of WAC 284-23-400. The purpose of this regulation is:

- (1) To regulate the activities of insurers and agents and brokers with respect to the replacement of existing life insurance and annuities;
- (2) To protect the interest of Life insurance and annuity purchasers by establishing minimum standards of conduct to be observed in replacement transactions by:
 - (a) Assuring that the purchaser receives information with which a decision can be made in his or her own best interest;
 - (b) Reducing the opportunity for misrepresentation and incomplete disclosures; and
 - (c) Establishing penalties for failure to comply with the requirements of this regulation.

The examiners asked for a listing of all external and internal replacements processed during the examination period. The Company produced such a listing containing 255 external replacements and 87 internal replacements. From this, a random sample of 127 files was selected. The Company provided copies of the policy files for all 127 sample files.

The examiners reviewed the policy files to determine if the following areas complied with Washington Replacement regulations:

- The replacement question on the application had been answered appropriately by the Proposed Insured/Owner. If not, that the appropriate answer had been amended or endorsed to show the correct answers. This is required for both internal and external replacements for all policy types.
- The replacement question on the application had been answered appropriately by the agent. This is required for both internal and external replacements for all policy types.
- A notice had been sent to the existing insurance company within 3 working days of receipt of the application at the KCL home office. This applies to external replacements only.
- The notice had been completed including that all questions were answered, signatures were on the form and that the listing of policies to be replaced was complete. This applies to external replacements only.
- That a policy summary had been sent to the existing company with the notice or at the time of policy issue. This applies to external non-variable product replacements only.

Of the 127 policy files, five (5) were actually conversions and were exempt from replacement regulations. Three (3) files were missing application copies and other paperwork that were used to determine if the policy was the result of replacement. These eight (8) files were not used in the sample. The net sample was 119 policy files.

Of the files reviewed, 82 were external replacements and 37 were internal. This is approximately the same mix as in the total population. The examiner's findings follow.

WAC	Sample Size	# External Replacement Violation	# Internal Replacement Violations	Total Violations	Percentage in Violation
284-23-450(2) The application question about replacement must be answered by insured/owner	119	1	16	17	14.28%*
284-23-455(1) The agent replacement question on the application must be answered	119	1	19	20	16.81%*
284-23-455(2)(b) The notice to the existing company must be mailed within 3 days of application receipt in the Home Office	82	18	0	18	21.95%
284-23-455(2)(a) The notice must be complete	82	11	0	11	13.41%
284-23-455(2)(b) A policy summary must be sent with the initial notice or at policy delivery to existing company	42	4	0	4	9.52%

*Note: Violations of the Replacement Regulations are listed by code section. As a result, a policy may appear in more than one section even though there was only a single replacement transaction.

WAC 284-23-450(2) requires that all insurers obtain a signed statement as to whether or not replacement is involved with or as part of each application. This must be done for both internal and external replacement. In reviewing files, the examiners did not find evidence that a blank or incorrectly answered replacement question was amended (or the application endorsed) prior to issue of the policy.

Subsequent Event: KCL's current procedure (2001) is to amend or endorse the application if the answer to the replacement question can be discerned from other underwriting file information. If they are not able to discern the correct answer, they return the application to the agent for proper completion.

The company's system produces the letter to the existing company when the application is received in the Home Office. The letter is dated the day the application is entered into their computer system. The company does not document the actual mail date in the file. In several situations, it was not possible to tell when the letter had been mailed. The notice was signed and dated significantly later than the letter, yet the letter was not reissued with a current date nor was the file documented.

WAC 284-23-440(2)(a) requires that the agent give a substantially correct and accurate notice to the proposed insured not later than at the time of taking the application. It is the company's responsibility to ensure that the notice is accurate and complete as part of their oversight of the agent's activities. 13.41% of the notices sampled were incomplete.

The company's computer system can generate a policy summary when the application is received and entered into the computer system. In only a very few instances was the policy summary not mailed with the initial notification to the existing company. There were, however, 4 instances where the examiner could not determine if a policy summary had been sent to the other company. This could be because the company failed to send the notice or because they failed to document the policy file.

Appendix 1 lists those policy files found in violation of the Washington Replacement Regulations.

Procedures and Agent Notification

The Company provided copies of various materials sent to agents describing their replacement requirements and philosophy. In addition, they provided a copy of the procedure in use during the examination period covering handling of replacements.

The agent materials appear to be complete and concise. In addition to replacement forms required to be submitted with applications, KCL requires a Life Insurance Replacement Statement that must be initialed and signed by the proposed insured and agent at the time the application is taken. In general, the additional form reiterates the messages on the replacement form but requires initialing after each statement. In reviewing files, the examiners found that this form was used for both internal and external replacements and was completed on every file with records available to be reviewed.

The Company also provided a copy of notification that was distributed to all agents and general agents in September 1996. This document outlines how to use the new Life Insurance Replacement Statement and states the Company's Replacement Policy.

The Company does have a procedure for processing replacements. However, this document does not address several issues.

- The procedure does not distinguish between processing an internal or external replacement and the requirements for each.

- The procedure does not require that the date the letter was actually mailed to the replaced company be documented in the file.
- The procedure does not address documentation of the file in the event that the policy summary is mailed when the policy is issued rather than when it the application is received.
- The procedure does not address the steps to be taken if the replacement forms are not received with an application.

Subsequent Event: In 2001, the company adopted new procedures for handling replacements. These procedures address the issues raised in this section of the report.

STANDARD (1)

Replacement procedures are consistent with the Washington replacement regulations, WAC 284-23-400 THROUGH WAC 284-23-499.

RESULTS: The Company did not meet this standard.

AGENT APPOINTMENTS AND LICENSING

As part of the file review for replacement issues, the examiners checked to ensure that the agents who solicited and wrote the applications were licensed and appointed in Washington at the time the application was taken.

The examiners found that all applications reviewed were written by agents who had been both licensed and appointed prior to soliciting applications on behalf of KCL.

Population	Sample Size	Number of Exceptions	Percentage to Sample
342	127	0	0

STANDARD (2)

Agents representing the company have been licensed and appointed prior to soliciting applications on behalf of the company according to RCW 48.17.010. and RCW 48.17.060. The standard is not met if there are any violations of either requirement.

RESULTS: The Company does meet this standard.

INSTRUCTIONS

1. The Company is instructed to comply with all sections of the WA Replacement Regulations, WAC 284-23-400, et.al. (See page 8)

APPENDIX (1)

Replacement Regulation Violations

WAC Section	Policy Number	Type of Violation
WAC 284-23-450(2)	5001671	Insured's Application Question not answered
	5004610	
	5004611	
	5007121	
	5007310	
	5009605	
	5010437	
	5010438	
	5010439	
	5010440	
	5011454	
	5012403	
	5012404	
	5012407	
	5013535	
	5014234	
	5014275	
WAC 284-23-455(1)	2635170	Agent's application question not answered
	2635401	
	2636931	
	2663486	
	5001671	
	5004610	
	5007121	
	5007310	
	5009605	
	5010437	
	5010439	
	5010438	
	5010440	
	5011454	
	5012403	
	5012404	
	5012407	
	5013535	
	5014234	
	5014275	
WAC 284-23-455(2)(b)	2632473	Notice sent more than 3 working days after receipt of application in Home Office
	2632474	
	2650729	
	2654677	
	2659024	
	2663695	
	2663696	
	5002613	
	5002711	
	5003150	

WAC Section	Policy Number	Type of Violation
	5004004	
	5004071	
	5008337	
	5009605	
	5009859	
	5011921	
	5012879	
	5014128	
WAC 284-23-455(2)(a)	2638798	Notice Incomplete
	2643848	
	2646676	
	2646678	
	2663696	
	2663902	
	2664798	
	2665338	
	2668145	
	5002669	
	5014261	
WAC 2840230455(2)(b)	2633493	Policy Summary not sent to existing company
	2650729	
	2653298	
	2663902	